

Message Text

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C O N F I D E N T I A L STATE 299424

FOR THE HONORABLE ARTHUR F. BURNS, CHAIRMAN FEDERAL RESERVE BOARD

E.O. 11652: GDS

MR. PARTEE'S NOMINATION CLEARED THE SENATE THIS MORNING. A COMPROMISE TAX BILL NOW APPEARS CERTAIN OF CONGRESSIONAL PASSAGE AND CONGRESS HOPES TO ADJOURN TONIGHT. AT THE TIME OF THIS CABLE, HOWEVER, A SATURDAY SESSION IS A POSSIBILITY. THE COMPROMISE, WHICH IS ACCEPTABLE TO THE PRESIDENT, IS A NON-BINDING CONGRESSIONAL PLEDGE TO REDUCE NEXT YEAR'S ANTICIPATED FEDERAL SPENDING BY AN AMOUNT EQUAL TO THE TAX REDUCTIONS. THE COMPROMISE TAX BILL HAS BEEN ATTACHED IN THE SENATE TO A HOUSE-INITIATED AMERICAN FALLS IRRIGATION BILL, AND FAVORABLE HOUSE ACTION IS EXPECTED TODAY. THE BILL PASSED THE SENATE BY A 72-7 VOTE.

PRESIDENT FORD TODAY VETOED A DOLS 45 BILLION APPROPRIATION BILL FOR THE DEPARTMENTS OF LABOR AND HEW BECAUSE IT CALLED FOR SPENDING NEARLY DOLS 1 BILLION MORE THAN HE HAD SOUGHT.

IN OTHER LEGISLATIVE DEVELOPMENTS, THE REDLINING-REGULATION EXTENSION BILL HAS PASSED THE CONGRESS AND HAS BEEN FORWARDED TO THE PRESIDENT. CONGRESS HAS ALSO FORWARDED TO THE PRESIDENT LEGISLATION THAT WOULD MAKE THE SECRETARY OF THE TREASURY A MEMBER OF THE NSC. ON THURSDAY THE SENATE AGREED TO H.J. RES. 749 WHICH PROVIDES FOR CONVENING THE SECOND SESSION OF THE 94TH CONGRESS AT NOON ON MONDAY, JANUARY 19. A RESOLUTION HAS
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ALSO BEEN PASSED EXTENDING THE DEADLINE FOR CONGRESSIONAL FILING

OF THE ECONOMIC REPORT OF THE PRESIDENT TO JANUARY 26. THE HOUSE SUBCOMMITTEE MARKUP OF GOVERNMENT IN THE SUNSHINE LEGISLATION WILL NOT BE COMPLETED BEFORE RECESS.

NEW YORK CITY IS TAKING IMMEDIATE ADVANTAGE OF THE DOLS 2.3 BILLION EMERGENCY LOAN APPROPRIATION SIGNED INTO LAW ON THURSDAY BY PRESIDENT FORD. THE CITY PLANNED TO DRAW DOLS 141 MILLION OF IT TODAY.

THE TRADE WEIGHTED VALUE OF THE DOLLAR DECLINED 0.1 PERCENT TODAY IN QUIET TRADING. THE RELEASE OF THE GERMAN TRADE FIGURES

FOR NOVEMBER, SHOWING A RISE IN THE SURPLUS TO DM 3.2 BILLION FROM DM 2.8 BILLION IN THE PREVIOUS MONTH, APPEARED TO HAVE LITTLE EFFECT ON THE EXCHANGE MARKET. THE SYSTEM PURCHASED DOLS 1 MILLION EQUIVALENT OF BELGIAN FRANC, AND, AT THE SUGGESTION

OF THE SWISS NATIONAL BANK, DOLS 1.9 MILLION EQUIVALENT OF GERMAN MARKS, WHICH WERE THEN RESOLD TO THE BNS FOR SWISS FRANCS. EURO-DOLLAR RATES WERE LITTLE CHANGED ON BALANCE. GOLD ROSE 20 CENTS TO DOLS 139.10.

NEW ORDERS FOR MANUFACTURERS' DURABLE GOODS DECLINED 1.2 PER CENT IN NOVEMBER, ACCORDING TO ADVANCE, PARTIAL-SAMPLE ESTIMATES, FOLLOWING A 0.4 PERCENT RISE IN OCTOBER. DECLINES IN NOVEMBER WERE CONCENTRATED IN THE PRIMARY METALS AND TRANSPORTATION EQUIPMENT INDUSTRIES. NEW ORDERS FOR MACHINERY AND FOR DEFENSE AND NONDEFENSE CAPITAL GOODS ROSE AGAIN LAST MONTH. UNFILLED ORDERS OF MOST OF THE MAJOR INDUSTRY GROUPINGS AND FOR MOST MAJOR TYPES OF PRODUCT DECLINED FURTHER IN NOVEMBER. CONSUMER PRICES, SEASONALLY ADJUSTED, ROSE 0.7 PER CENT IN NOVEMBER, THE SAME AS IN THE PRECEDING MONTH. FOOD PRICES ROSE 0.6 PERCENT IN NOVEMBER, LESS THAN HALF THE 1.3 PER CENT INCREASE IN OCTOBER; WHILE SERVICE PRICES ROSE NEARLY TWICE AS FAST -- 1.1 PER CENT LAST MONTH -- AS IN OCTOBER. THE RISE IN SERVICE PRICE INDEX RESULTED PRIMARILY FROM THE INCREASE IN THE TRANSPORTATION SERVICES. PRICES OF NONFOOD COMMODITIES, UP 0.3 PERCENT, CONTINUED TO RISE MODERATELY AS IN THE TWO PRECEDING MONTHS. REAL EARNINGS OF PRODUCTION OR NONSUPERVISORY WORKERS ON PRIVATE NONFARM PAYROLLS EDGED UP IN NOVEMBER. CONFIDENTIAL

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THE GOVERNMENT SECURITIES MARKET HAD A VERY FIRM TONE TODAY, AS PARTICIPANTS CONTINUED TO REACT TO THE DOLS 3 BILLION DECLINE IN M-1 PUBLISHED YESTERDAY. SOME LONG-TERM BONDS ROSE AS MUCH AS ONE POINT. THE 3-MONTH BILL WAS DOWN TO 5.28 PER CENT. HOWEVER, SOME MARKET PARTICIPANTS APPEARED TO BE DISAPPOINTED WHEN THE DESK DID NOT INTERVENE TO SUPPLY RESERVES UNTIL THE FEDERAL FUNDS RATE ROSE TO 5-1/4 PER CENT DURING THE AFTERNOON. A TOTAL OF 1.5 BILLION IN REPURCHASE AGREEMENTS WERE MADE IN LIGHT OF A

LARGE NEED TO SUPPLY RESERVES. THE EFFECTIVE FUNDS RATE FOR THE DAY WAS 5.20 PER CENT. STOCK PRICES DECLINED IN MODERATELY ACTIVE TRADING. THE DOW JONES INDUSTRIALS FELL 7.71 POINTS TO A LEVEL OF ABOUT 844.

MR. GUENTHER IS MONITORING CONGRESSIONAL DEVELOPMENTS AND WE WILL WIRE ANY SIGNIFICANT NEW INFORMATION ON SATURDAY.

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